8. USE OF EDI AND EFT IN THE MANAGEMENT OF GOVERNMENT GUARANTEED AND DIRECT LOAN PROGRAMS

The Federal government lends money to individuals and organizations for a number of reasons, including education, loans to foreign governments, etc. It also guarantees business, agricultural, and housing loans made by banks, guarantee agencies, and other lending institutions. The agencies that administer these loan programs are:

- U.S. Department of Education (ED)
- U.S. Department of Veterans Affairs (VA)
- U.S. Department of Housing and Urban Development (HUD)
- U.S. Small Business Administration (SBA)
- Farmer's Home Administration (FmHA)
- U.S. Agency for International Development (US AID)
- Export-Import Bank

In addition, there are Government Sponsored Entities (GSEs), such as Freddie Mac, Fannie Mae, Sallie Mae, and Ginnie Mae that buy and resell government guaranteed loans into the secondary market

The Department of the Treasury, Financial Management Service (FMS) has government-wide oversight of guaranteed loan and other credit programs, which has been delegated to FMS by the Office of Management and Budget (OMB). In this capacity, FMS seeks to increase the efficiency by which they are managed, thereby reducing risk for the Federal government.

8.1. THE USE OF EDI AND EFT IN LOAN MANAGEMENT

Credit granting agencies have to maintain and store information on hundreds of thousands of loans, lenders and borrowers. This information has to be collected from and disbursed to thousands of individuals, financial institutions and other organizations on a daily basis. Moreover, funds are received from these entities for loan guarantee fees and premiums, loan repayments, etc. Agencies also need to settle claims for bad loans. Given the volume and urgency of transmitting data and funds, EDI and EFT provide robust and cost effective technical solutions for the management of loan programs.

In Fiscal Year 1995, FMS determined that while the number of government direct and guaranteed loans were decreasing, the government's risk exposure appeared to be increasing. Recognizing the urgent need for more effective, accurate, and timely management of loan programs, FMS has

been advocating the use of EDI and EFT, and has undertaken a number of projects to assist the credit granting agencies in implementing these technologies.

This section presents some guidelines for the use of EDI and EFT in the management of government guaranteed and direct loan programs, along with examples of systems that have been implemented by the credit granting agencies.

8.2. THE GUARANTEED LOAN MANAGEMENT SYSTEM MODEL

In 1992, FMS commissioned the development of a Guaranteed Loan Management System (GLMS) Model that identified the key elements of an effective system for managing the entire guaranteed and direct lending process. The Model provides Federal agencies with a framework to follow in enhancing existing systems or developing new systems to manage their guaranteed loan portfolios by ensuring:

- Compliance with Federal policies and legislation regarding government guaranteed loan programs; specifically, OMB Circular A-129, the Credit Reform Act of 1990, and the Guaranteed Loan Management Assessment (GLMA)/OMB Bulletin 91-05
- Management of risk and mitigation of guaranteed loan losses
- Use of effective quality control/internal control measures
- Standardization of systems supporting similar programs across Federal agencies
- Use of current technology in automated systems

The GLMS Model is organized into five phases of the guaranteed loan lifecycle. These five phases are:

- Lender Management
- Loan Origination
- Loan Servicing
- Debt Collection
- Write-off

These five phases have been used in this section as a basis for examining the potential for EDI and EFT implementation.

8.2.1 LENDER MANAGEMENT

Lender management includes those functions necessary to certify and monitor lenders who originate loans guaranteed by Federal and external agencies. In this phase of loan management, agencies periodically receive information and fees from lenders. In recent years, agencies have attempted to set up cross-agency data stores that will enable them to exchange lender information amongst themselves, and judge the performance of lenders on a government-wide basis. However, due to the volume of information and the lack of cross-agency data standards, none of these efforts have progressed beyond an experimental status.

There is great potential for EDI and EFT to be applied in lender management functions to accurately and speedily exchange lender data and receive fee payments. Exhibit E-1, in Appendix E, Potential for EDI and EFT Usage in the Guaranteed Loan Management Lifecycle presents a list of these functions.

8.2.2 LOAN ORIGINATION

The loan origination phase of the guaranteed loan management lifecycle includes functions necessary to process, evaluate, and approve loan applications, and process guarantee fee billings. In this phase of loan management, agencies receive large volumes of information on new loans that have been made by lenders, including borrower property, and appraisal information. They also receive fees for the guaranty and other services that they provide. Traditionally information and fees have been sent via paper documents and checks that need to be manually processed and deposited into bank accounts. Given the volume of these transactions, there is a high potential for errors and processing delays. However, with the development of new transaction sets such as the 201, Residential Loan Application, and the 872, Mortgage Insurance Application, transaction sets, loan origination information can be easily exchanged using EDI. Similarly EFT and financial EDI can expedite the receipt and processing of monetary transactions.

Exhibit E-2, in Appendix E, Potential for EDI and EFT Usage in the Guaranteed Loan Management Lifecycle, presents a list of the functions in this phase in which EDI and EFT may be utilized to increase efficiency and reduce manual processing costs.

8.2.2.1. LOAN ORIGINATION - SAMPLE EDI APPLICATION

Described below is an EFT-based application that assist a credit-granting agency in collecting funds in the loan origination phase.

♦ Electronic Loan Guaranty Fee Collection at SBA

SBA's mission is to help people get into business, to help people who are in business stay in business, and to help businesses flourish and grow. In fulfilling this mission, SBA provides government guarantees of up to 80% of loans made by the private lending sector. A fee of 0.25% to 3.875% of the guaranteed portion of the loan is levied by SBA in return for the guarantee.

Borrowers apply for SBA guaranteed loans from private lending institutions. After the lender and SBA approve the loan, the lender disburses the funds to the borrower and remits the loan guarantee fee to the SBA Office of Financial Operations (OFO) in Denver. Sometimes, lenders remit excessive or duplicate loan guarantee fees to SBA, or make mistakes in providing the SBA loan number with their payments, and refunds have to be made to them.

The objective of the new EDI loan guarantee fee application is to automate the exchange of loan guarantee fee payments and associated data between SBA and lenders. This will reduce the time and costs associated with manual processing, reconciliations, and data entry.

In the new application, lenders transmit an ANSI X12 820, Payment Order, transaction set to their financial institution via a Value Added Network (VAN). The lender's financial institution converts the 820 transaction set into either a CTX or CCD+ transaction, depending upon its financial EDI capabilities, and transmits it to the Federal Reserve Bank (FRB) via the ACH network. FRB receives the CTX or CCD+ transaction from the lender's financial institution, credits Treasury's account, and forwards the CTX or CCD+ transaction to Treasury's CA$H-LINK deposit reporting system through a bulk data file transfer. OFO retrieves the transaction detail information (e.g., deposit amounts and remittance advice data) from CA$H-LINK via a dial-up connection and updates its Loan Accounting and Cash Collection System (LACCS) with transaction detail information.

For refunds, OFO extracts information from LACCS and generates a payment file in CCD+ format. A separate payment certification summary file is created by the Electronic Certification System (ECS) when an SBA Certifying Officer approves the payments. OFO transmits the payment file via a leased line and the ECS file via a dial-up connection to FMS. FMS receives the two files, create a CCD+ transaction, and transmits it to FRB via FMSnet. FRB receives the CCD+ transaction from FMS, debits Treasury's account, and transmits the CCD+ transaction to the lender's financial institution via the ACH network. The lender's financial institution receives the CCD+ transaction, credits the lender's account, and forwards the remittance information from the CCD+ transaction to the lender.

Exhibit 8-1, SBA Electronic Loan Guarantee Fee Collection, presents a pictorial overview of the new collection and refund application.

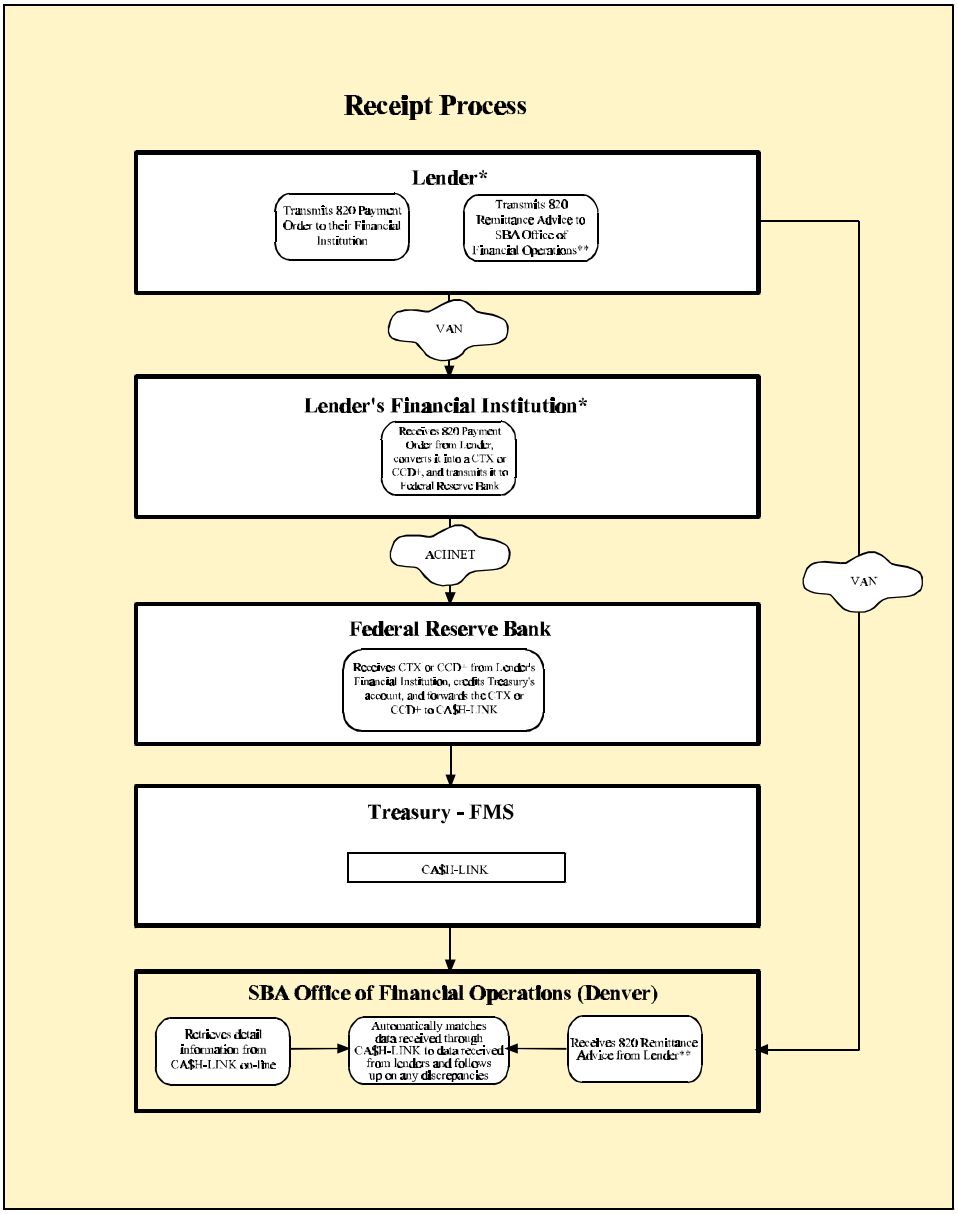

Exhibit 8-1: SBA Electronic Loan Guarantee Fee Collection

8.2.3 LOAN SERVICING

The loan servicing phase of the guaranteed loan management lifecycle includes functions required to service loans and monitor the performance of loan portfolios. In this phase of loan management, agencies periodically obtain different types of information on their loan portfolios from lenders. For example, VA receives notification on loans that have gone into a default status, and SBA receives status information on all of its guaranteed loan portfolio on a monthly basis. As this information tends to be repetitive, and labor and paper-intensive to process, EDI presents a convenient and cost effective method of automating and exchange of loan servicing information.

Exhibit E-3, in Appendix E, Potential for EDI and EFT Usage in the Guaranteed Loan Management Lifecycle presents a list of the functions in this phase in which EDI and EFT may be utilized to increase efficiency and reduce manual processing costs.

8.2.3.1. \LOAN SERVICING - SAMPLE EDI APPLICATIONS

Described below are two EDI-based applications that assist organizations in collecting data in the loan servicing phase.

- **Mortgage Loan Default Status Reporting at VA**

Mortgage holders and servicers send notices of mortgage loan defaults to VA when four consecutive payments on a loan have been missed. VA then works with the veteran and the mortgage holder or servicer to try to cure the loan. During this interval, VA generates status inquiry reports that are mailed to mortgage holders and servicers of delinquent loans. Currently, the default loan status information is communicated to the VA by mortgage holders and servicers either through status letters (paper) or through magnetic tapes.

The objective of the new EDI default status reporting application is to automate the exchange of mortgage loan default status information between VA and mortgage holders and servicers. By automating the transfer of data, VA will be able to eliminate the time and costs associated with manual processing, data entry, and postage.

The mortgage holder or servicer will transmit ANSI X12 264, Mortgage Loan Default Status (Notice of Default), transaction sets to the VA Data Processing Center via a Value Added Network (VAN) when the borrower is in default. On a daily basis, the VA Data Processing Center will collect the notice of default transactions from their VAN mailbox and use them to automatically update their Liquidation and Claims System (LCS).

On a monthly basis, VA will automatically create 264, Mortgage Loan Default Status (Inquiry), transaction sets. These transaction sets will be transmitted to mortgage holders and servicers via a VAN. The mortgage holder or servicer will retrieve the inquiry transactions from their VAN mailbox, update the status of the loans in the message, and transmit 264, Mortgage Loan Default Status (Response), transaction sets back to VA. On a daily basis, the VA Data Processing Center will retrieve the response transactions from their VAN mailbox and use them to automatically update LCS.

Exhibit 8-2, VA's Electronic Mortgage Loan Default Status Reporting Process, presents a pictorial overview of the new EDI application.

♦ Electronic Guaranty Loan Status System at SBA

SBA obtains information relating to loan status from its participating lenders on a quarterly basis using a paper form (Form 1175) that is mailed from SBA to lenders, completed by lenders, and then mailed back to SBA. The information received from lenders on Form 1175 is manually entered by SBA into its Guaranty Loan Reporting System (GLRS).

The purpose of the new SBA Electronic Guaranty Loan Status System (EGLSS) is to automate

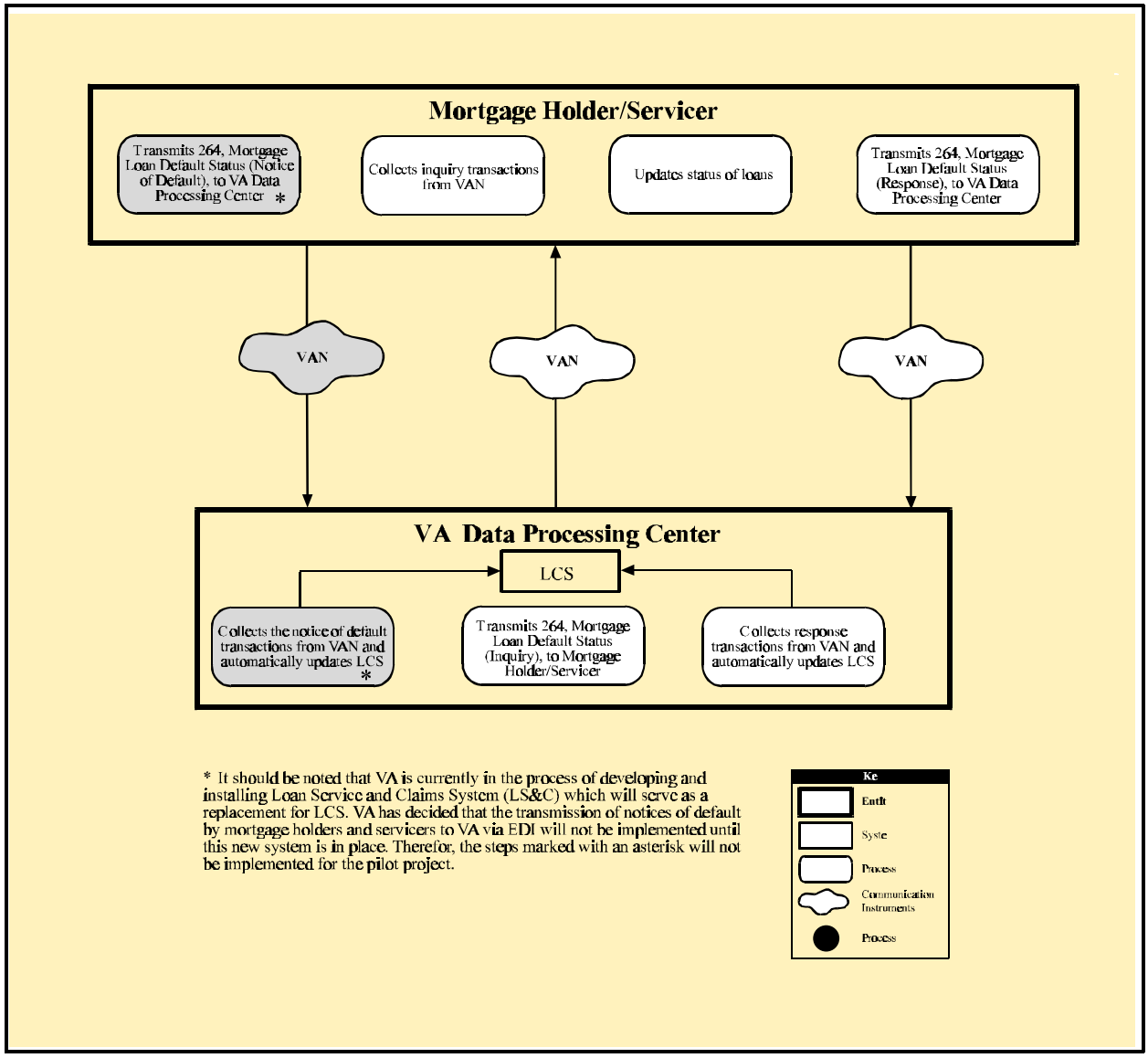

Exhibit 8-2: VA's Electronic Mortgage Loan Default Status Reporting Process

the current guaranteed loan status reporting process and eliminate the manual effort required to generate and mail Form 1175s and key in the responses received from lenders.

At the end of each month, SBA will automatically generate ANSI ASC X12 822, Customer Account Analysis "Loan Status Request", transaction sets and transmit them to lenders via a VAN. Lenders will receive the messages and send back ANSI X12 822, Customer Account Analysis "Loan Status Response", transaction sets to SBA by the fifth working day of the next month. On a daily basis, SBA will retrieve the response transactions from their VAN mailbox and use them to automatically update the GLRS. In addition, lenders will be required to identify secondary market loans and a copy of the 822, Response, transaction set for these loans will be sent directly to the fiscal transfer agent through the VAN.

Exhibit 8-3, SBA Electronic Guaranty Loan Status System, presents a pictorial overview of SBA's new electronic loan status reporting process.

8.2.4 DEBT COLLECTION

The debt collection phase of the guaranteed loan management lifecycle includes functions required to process claims and assignments, and perform other related collection tasks. In this phase of loan management, lenders send claim notices to the credit granting agencies who process them and transmit funds, as appropriate. EDI and EFT have the potential to increase the timeliness and efficiency of processing and settling claims, while lowering the processing cost to the agency.

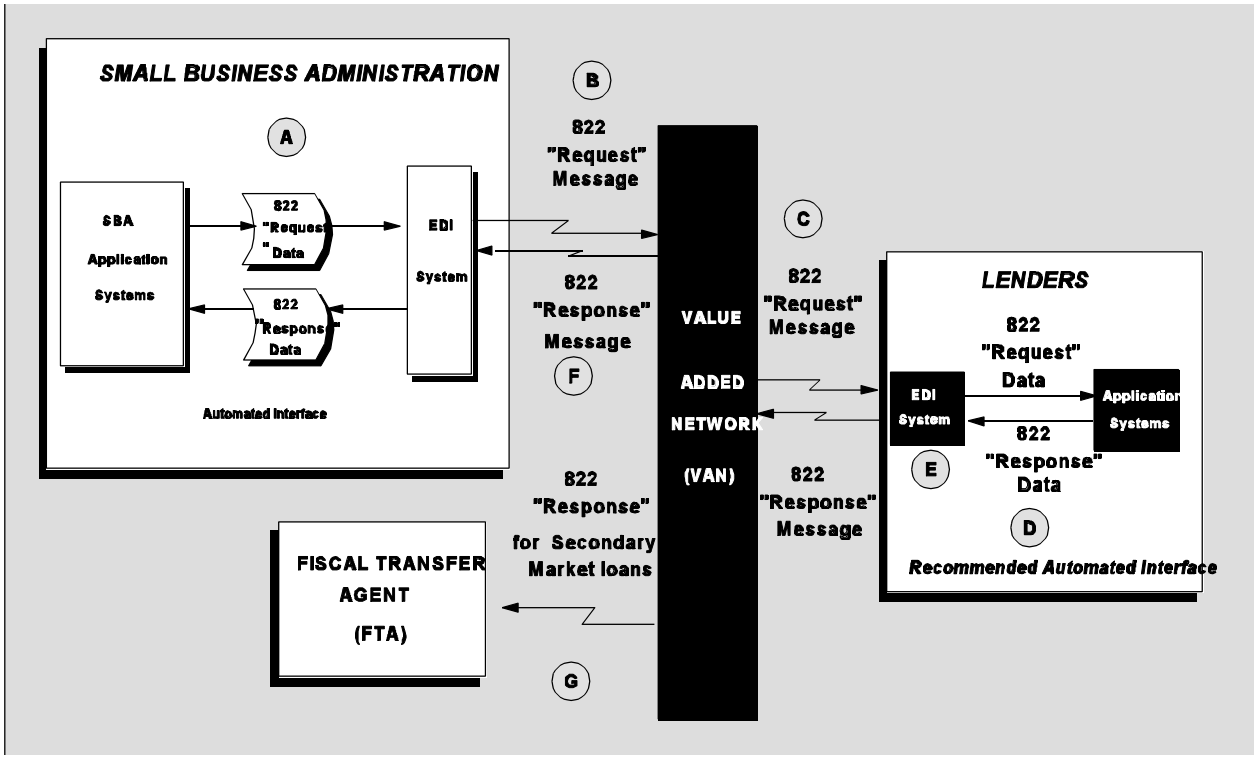

Exhibit 8-3: SBA Electronic Guaranty Loan Status System

Exhibit E-4, in Appendix E, Potential for EDI and EFT Usage in the Guaranteed Loan Management Lifecycle presents a list of the functions in this phase in which EDI and EFT may be utilized effectively.

8.2.4.1. DEBT COLLECTION - A SAMPLE EDI APPLICATION

Described below is an EDI and EFT-based application that assists a credit granting agency in collecting data and funds in the debt collection phase.

- **Application for Mortgage Insurance Benefits at HUD**

HUD is currently in the process of implementing an EDI application, Application for Mortgage Insurance Benefits, within its Single Family Insurance program. Currently, when homeowners default on HUD insured mortgages, the mortgagees submit hard copies of Mortgage Insurance Benefit claims to HUD, through the mail, for reimbursement. The claims are sorted, manually keyed, edited and processed for reimbursement. A magnetic tape containing eligible reimbursements is generated at HUD along with a report listing payment information. A HUD officer reviews the report and authorizes the payments. The magnetic tape then is sent to Department of the Treasury for disbursement of funds to claimants.

The objective of the new EDI application is automate the receipt of claims data to HUD and the disbursement of reimbursements to claimants. The new application involves the mortgagees electronically submitting Mortgage Insurance Benefit claims to HUD using EDI transactions. Mortgagees will transmit claims from their computers to HUD through a VAN. HUD will electronically receive claims data and automatically update its system. The claims will be processed for payment and reviewed by a certifying officer. Upon certification, a request for an ACH payment will be initiated using EDI transactions and transmitted to the Department of the Treasury. The Department of the Treasury will transfer the payment from an EDI capable bank to the claimant's bank via the ACH network.

By automating the transfer of data, HUD will be able to eliminate the time and costs currently associated with manual processing of claims. With EDI, HUD will be able to strengthen its risk management by ensuring the validity of claims in a more timely manner. Mortgagees have found that substantial financial savings are gained with the electronic transfer of claims data following foreclosure or assignment of a loan.

Exhibit 8-4, Application for Mortgage Insurance Benefits at HUD, resents a pictorial overview of the new EDI/EFT application being implemented at HUD.

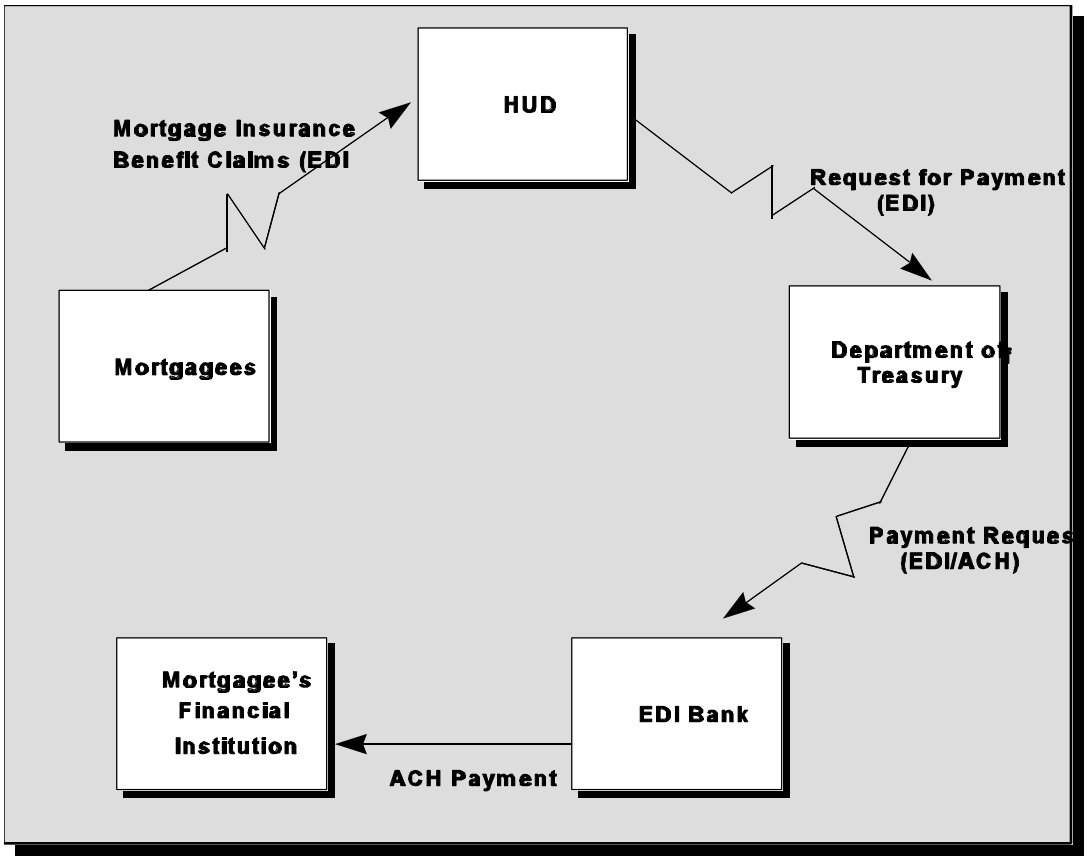

Exhibit 8-4: Application for Mortgage Insurance Benefits at HUD

8.2.5

The write-off phase of the guaranteed loan management lifecycle includes functions required to process loans written off and closed out. As most of these functions are performed within the agency and do not involve any communication with external entities. Therefore, there is no potential for EDI usage in this phase of loan management.